

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL MEMORANDUM

HB 885 – SB 1561

May 18, 2009

SUMMARY OF AMENDMENT (008439): Adds new language to Section One of the printed bill. Sets forth provisions by which the design phase of the promise zone shall be completed. Requires various colleges and universities state-wide to facilitate the design phase. Requires all cost associated with the design phase to be paid for with private donations. Requires a report on the design phase to be made to the Select Oversight Committee on Education by September 1, 2010. This report will include recommendations for implementing pilot projects. Limits the program to two pilot programs, one in House District 86 in Shelby County and one in House District 15 in Knox County. Pilot projects shall terminate on June 30, 2014. Defines a post-secondary institution as those listed under Tenn. Code Ann. § 49-4-902. Students within a promise zone will be eligible to receive promise zone tuition for post-secondary private two or four-year institutions, any Tennessee Board of Regents institution, and any University of Tennessee system school.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures – Not Significant

Increase Local Expenditures – Exceeds \$100,000,000*

Other Fiscal Impact – A portion of the state education taxes earmarked for education will transfer into a dedicated fund for promise zone scholarships. Such a transfer in funds is dependent upon the number of students living within the promise zone and the portion of the state education tax that would have otherwise been received. The amount of scholarship money required if 10 percent of at-risk children participate in a promise zone will be approximately \$295,550,000. It is unknown if a shift in funds from the state education sales and use tax would be sufficient to fully fund a promise zone.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures – Not Significant

**Increase Local Expenditures – Exceeds \$8,619,000/FY11-12
through FY13-14***

Exceeds \$9,684,300

Permissive/FY14-15 and thereafter

Other Fiscal Impact – State revenue earmarked for the state education fund will be redirected into special local promise zone accounts. The base fiscal year from which revenue is redirected may be one of four fiscal years, with the year determined by the lesser of the revenue from those years. The four fiscal years are either the preceding fiscal year from the one in which the authority makes initial tuition payments or any of the three succeeding years. This may be different for different authorities. For the purposes of this fiscal note a base year of FY08 is used. In FY08, the amount that will be diverted is approximately \$8,619,000, increasing by 6 percent each year to \$9,684,300 in FY13-14. Each year funds are transferred from the general fund into the state education fund to close out the fiscal year. It is assumed that any diversion of revenue from the education fund will require a corresponding transfer from the general fund.

After the pilot projects end in FY13-14, the promise zones will have state-wide applicability. The amount of redirected revenue from education taxes into promise zones will be dependent upon the number of promise zones that are created, the number of students living within a promise zone, and the portion of the tax that would otherwise have been collected from those areas, and the fiscal year in which a zone makes initial tuition payments. While the total amount is unknown, the redirected amount will exceed \$9,684,300.

Assumptions applied to amendment:

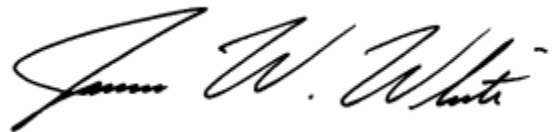
- All costs for the design phase will be paid for with private donations. No state appropriation will be made. Any increase in state expenditures is estimated to be not significant.

- According to the Department of Revenue, the total state sales and use tax revenue dedicated to the education fund collected in House Districts 15 and 86 in FY08 was approximately \$287,300,000. The average annual growth rate is six percent.
- Promise zone chartering entities for the pilot programs will begin tuition payments in FY11-12. Promise zone entities will be entitled to capture one-half of the six percent growth.
- The beginning base year that will be calculated for the promise zone collections will be in FY07-08. Six percent of \$287,300,000 is \$17,238,000. One-half of that is \$8,619,000. Each fiscal year this amount will increase by approximately six percent.
- In FY11-12 the diverted amount will be approximately \$8,619,000. In FY12-13 the diverted amount will be approximately \$9,136,140. In FY13-14 the diverted amount will be approximately \$9,684,308.
- After FY13-14, the bill will have statewide applicability, therefore the amount captured will exceed \$9,684,308 and will depend upon the number of promise zones created, the number of eligible students living within the zones, when the chartering authority begins to make payments, which fiscal year is chosen to begin from and the amount of tax collected from the zones. Any increase in local expenditures after FY13-14 will be permissive.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/msg